MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BFN2244 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

29 FEBRUARY 2020
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 9 pages with **FOUR (4)** Questions only. (Including Front Page and Consolidated Financial Statements)

2. Answer **ALL** questions.

3. Write your answers in the Answer Booklet provided.

QUESTION 1 & 2

Inari Amertron Berhad is principally involved as an Outsourced Semiconductor Assembly and Test (OSAT) service provider for Radio Frequency ("RF"), Fiber-optics transceivers, Optoelectronics, sensors and custom IC technologies. It is based in Kuala Lumpur and listed on Bursa Malaysia.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Performance

The Group registered a net profit of RM192.3 million in the current financial year, a decrease of 26.1% year-on-year as compared to RM260.1 million recorded in the previous financial year. This is mainly due to lower orders, changes in product mix and higher depreciation cost arising from the additional capital expenditure of RM183.9 million across the Group in FY2019 as compared to the previous financial year.

FY2019 was a challenging year clouded by numerous uncertainties of geopolitical events such as the on-going USA-China trade war and volatile business environment.
The Group's performance, which remained strong during the first two quarters, was affected to some extent by the negative trade sentiments although remaining resilient over the full year FY2019.

The Group's debt-to-equity remained low at 0.01 times, and the shareholders' funds remained strong which growing to RM1,122.0 million as at 30 June 2019. The low gearing was mainly due to the lower drawdown of loan facilities coupled with repayment of borrowings during the current financial year. The Group's borrowings as of FY2019 was reduced from RM23.6 million to RM14.9 million, representing a decrease of 36.9% compared to the last financial year.

During FY2019, the Company declared four (4) single-tier interim dividends totalling to 5.2 sen per ordinary share based on the enlarged share capital after the issuance of Bonus Issue which had completed on 16 April 2018. This representing a higher payout ratio at 85.8% over the profit after tax as compared to a total dividend of 8.4 sen per ordinary share in the previous financial year with a lower payout at 81.6% over the profit after tax. Overall, the total dividends declared to shareholders in FY2019 amounted to RM165.0 million compared to RM212.3 million declared in FY2018.

Challenges & Strategies

We are positive on the outlook while remaining cautious and mindful of the challenges ahead for the Group as the semiconductor industry is a highly competitive, volatile and fast-changing one. We will continuously review our risk management and business sustainability framework which includes processes and policies aimed at addressing and

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mitigating risks at the same time sustaining growth to achieve the Group's business objectives.

We operate in a fast and rapidly changing industry. There is the constant presence of risks associated with an uncertain global economy with weaker trade and demand will affect the worldwide semiconductor industry resulting in demand volatility and a challenging technology environment. Any slowdown in global semiconductors demand, smartphone demand or technology obsolescence, will have a negative effect on our business.

Outlook and Prospects

The semiconductor market forecast spring 2019 released by the World Semiconductor Trade Statistics ("WSTS") has reported that the world semiconductor market is expected to grow to USD434.4 billion in 2020 with the overall market up by 5.4%. All major product categories and regions are forecasted to grow with Memory contributing the highest growth followed by Optoelectronics and Logic. Based on the forecast, the outlook for semiconductor industry is positive and we look forward to growing further in line with the forecast

Moving ahead in FY2020, the Group will continue to expand our production capacity and invest in test/ assembly technologies in areas of improvement to drive better margins and revenue. For FY2020, we have budgeted allocation of around RM150.0 million in capital expenditure for new and improved production equipment and facilities.

Due to the on-going global uncertainties, we remain cautiously optimistic in our earnings for the next financial year. We also look forward to continue our implementation of the Industry 4.0 framework on a bigger scale throughout the Group to promote automation in our production processes in order to drive down production costs and improve productivity in the near future.

Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position are attached on the pages 7 to 9.

QUESTION 1 (25 marks)

a) Based on the attached **group statements of profit or loss and other comprehensive income AND statements of financial position,** compute the changes in revenue, profit from operations, profit for the period and earnings per ordinary share for the financial years 2018 to 2019. **(10 marks)**

b) Based on the attached **group statements of profit or loss and other comprehensive Income AND statements of financial position,** calculate the return on equity and its component ratios (net profit margin, total asset turnover and financial leverage) for the financial years 2018 and 2019. **(15 marks)**

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QUESTION 2 (25 marks)

a) Based on the attached **group statements of profit or loss and other comprehensive income AND statements of financial position,** calculate the conversion periods (account inventory periods and account receivable periods) for the financial years 2018 and 2019. **(10 marks)**

b) Based on **chairman's review and management discussion & analysis**, you are required to support your answer in question 1(a), 1(b) and 2(a) to determine its significance to stock valuation. **(15 marks)**

QUESTION 3 (25 marks)

a) You are given the following information for Matrix Company. As of year 1, the company's book value is RM50,000 and its cost of capital is 15%.

	Year 1 RM	Year 2 RM	Year 3 RM	Year 4 RM	Year 5 RM
Sales	122,000	114000	105,000	96,000	82,855
Operating expenses	100,000	90,000	80,000	70,000	57,145
Depreciation	10,000	11,300	12,770	14,430	14,430
Net income	12,000	12,700	12,230	11,570	11,280
Dividends	6,000	6000	5,600	5,700	5,100
Expected book value	50,000	56,000	62,700	69,330	75,200
ROCE	0.2400	0.2268	0.1951	0.1669	0.1500

Dividends for year 6 and beyond are expected to remain at year 5 level.

i) Compute Matrix's abnormal earnings for year 1 to year 5 **(5 marks)**

ii) Use an accounting based valuation model to estimate the value of Matrix's equity for year 1 to year 5. **(5 marks)**

b) Discuss TWO (2) types of accounting change with examples **(8 marks)**

c) "Operating activities are deemed to be recurring activities and vice-verse." Discuss the statement. **(7 marks)**

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QUESTION 4 (25 marks)

You are given the income statement and financial position as follow

AUTOMATION SERVICES COMPANY Income Statement for the Year Ended December 31, 2019	RM	RM
Revenue		507,000
Cost of goods sold	150,000	
Operating expenses	111,000	
Depreciation expense	9,000	
Loss on sale of equipment	3,000	
Interests expense	42,000	315,000
Income before income tax		192,000
Income tax expense		47,000
Net income		145,000

AUTOMATION SERVICES COMPANY Comparative statement of financial position as at December 31				
Assets	2019	2018	Changes in Account Balance Increase/Decrease	
	RM	RM	RM	
Current assets				
Cash	55,000	33,000	22,000	Increase
Accounts receivable	20,000	30,000	10,000	Decrease
Inventory	15,000	10,000	5,000	Increase
Prepaid expenses	5,000	1,000	4,000	Increase
Property, plant & equip.				
Land	130,000	20,000	110,000	Increase
Buildings	160,000	40,000	120,000	Increase
Accm.depreciation – building	(11,000)	(5,000)	6,000	Increase
Equipment	27,000	10,000	17,000	Increase
Accm.depreciation – equip	(3,000)	(1,000)	2,000	Increase
Total assets	398,000	138,000		
Liabilities & SH Equity				
Current liabilities				
Accounts payable	28,000	12,000	16,000	Increase
Income tax payable	6,000	8,000	2,000	Decrease
Long-term liabilities				
Bonds payable	130,000	20,000	110,000	Increase
Stockholders' equity				
Common stock	70,000	50,000	20,000	Increase
Retained earnings	164,000	48,000	116,000	Increase
Total liabilities & SH equity	398,000	138,000		

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Additional information for 2019:

1. Depreciation expense was comprised of RM6,000 for building and RM3,000 for equipment.
2. The company sold equipment with a book value of RM7,000 (cost RM8,000, less accumulated depreciation RM1,000) for RM4,000 cash.
3. Issued RM110,000 of long-term bonds in direct exchange for land.
4. A building costing RM120,000 was purchased for cash. Equipment costing RM25,000 was also purchased for cash.
5. Issued common stock for RM20,000 cash.
6. The company declared and paid a RM29,000 cash dividend.

Required: Prepare a Statement of Cash Flows using Indirect method **(25 marks)**

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Statements of Financial Position
As at 30 June 2019

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	**489,505**	400,353	**82**	90
Investment in subsidiaries	6	**-**	-	**517,537**	437,535
Intangible assets	7	**2,200**	2,145	**-**	-
Deferred tax assets	8	**2,205**	5,139	**-**	-
Total non-current assets		**493,910**	407,637	**517,619**	437,625
Current assets					
Inventories	9	**172,694**	160,521	**-**	-
Trade receivables	10	**202,929**	202,352	**-**	-
Other receivables, deposits and prepayments	11	**30,119**	30,647	**74**	36
Amount due from subsidiaries	12	**-**	-	**80,047**	93,351
Tax recoverable		**10,967**	656	**-**	49
Deposits, cash and bank balances	13 & 14	**429,716**	529,962	**175,174**	227,381
Total current assets		**846,425**	924,138	**255,295**	320,817
TOTAL ASSETS		**1,340,335**	1,331,775	**772,914**	758,442
EQUITY AND LIABILITIES					
EQUITY					
Equity attributable to owners of the Company					
Share capital	15	**650,450**	607,781	**650,450**	607,781
Other reserves	16	**29,995**	14,832	**22,658**	14,903
Retained earnings	17	**437,973**	439,525	**66,367**	81,940
		1,118,418	1,062,138	**739,475**	704,624
Non-controlling interests	6	**3,541**	8,679	**-**	-
Total equity		**1,121,959**	1,070,817	**739,475**	704,624
LIABILITIES					
Non-current liabilities					
Borrowings	18	**8,709**	14,545	**-**	215
Deferred rental	19	**185**	244	**-**	-
Retirement benefits obligations	20	**407**	44	**-**	-
Deferred tax liabilities	8	**8,583**	6,393	**-**	-
Total non-current liabilities		**17,884**	21,226	**-**	215

Statements of Financial Position
As at 30 June 2019
cont'd

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
EQUITY AND LIABILITIES *(cont'd)*					
LIABILITIES *(cont'd)*					
Current liabilities					
Trade payables	21	**81,764**	88,467	-	-
Other payables, accruals and other liabilities	22	**79,012**	80,773	**1,402**	2,189
Borrowings	18	**6,161**	9,010	**221**	1,293
Preference shares	23	-	2,307	-	-
Tax payable		**1,786**	9,054	**47**	-
Dividend payable		**31,769**	50,121	**31,769**	50,121
Total current liabilities		**200,492**	239,732	**33,439**	53,603
Total liabilities		**218,376**	260,958	**33,439**	53,818
TOTAL EQUITY AND LIABILITIES		**1,340,335**	1,331,775	**772,914**	758,442

The accompanying notes form an integral part of the financial statements.

Statements of Profit or Loss and Other Comprehensive Income
For the Financial Year Ended 30 June 2019

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Revenue	24	**1,152,860**	1,376,042	**177,966**	171,680
Cost of sales		**(883,411)**	(1,012,906)	**-**	-
Gross profit		**269,449**	363,136	**177,966**	171,680
Other income		**12,478**	9,375	**1,823**	1
Finance income		**9,370**	9,415	**4,794**	6,087
Gain on disposal of assets		**-**	23,742	**-**	-
Administrative expenses		**(73,819)**	(108,669)	**(6,554)**	(24,440)
Operating profit		**217,478**	296,999	**178,029**	153,328
Finance costs	25	**(1,273)**	(1,541)	**(65)**	(122)
Profit before tax	26	**216,205**	295,458	**177,964**	153,206
Tax expenses	27	**(23,858)**	(35,328)	**(268)**	(186)
Profit for the financial year		**192,347**	260,130	**177,696**	153,020
Other comprehensive income/(loss), net of tax:					
Item that will not be reclassified subsequently to profit and loss					
Remeasurement of retirement benefits		**(6)**	(165)	**-**	-
Item that will be reclassified subsequently to profit and loss					
Foreign currency translation of foreign operations		**7,408**	(15,441)	**-**	-
Total other comprehensive income/(loss) for the financial year, net of tax		**7,402**	(15,606)	**-**	-
Total comprehensive income for the financial year		**199,749**	244,524	**177,696**	153,020
Profit for the financial year attributable to:					
Owners of the Company		**191,723**	249,266		
Non-controlling interests	6	**624**	10,864		
		192,347	260,130		
Total comprehensive income for the financial year attributable to:					
Owners of the Company		**199,125**	233,660		
Non-controlling interests	6	**624**	10,864		
		199,749	244,524		
Earnings per share attributable to owners of the Company (sen):	28				
- Basic		**6.06**	8.08		
- Diluted		**5.95**	7.85		

The accompanying notes form an integral part of the financial statements.